



## OVERVIEW

Starting January 1, 2008, Michigan will have a new business tax system. The Michigan Business Tax (MBT) will replace the Single Business Tax (SBT). Under the new structure, seven out of 10 Michigan businesses (including numerous small businesses and manufacturers) will receive tax cuts. A business with gross receipts of \$350,000 or less will not have to file a tax return or pay any tax.

The MBT is a simplified tax system based on business income and gross receipts. It also includes numerous tax credits. While some credits are new, others continue from the Single Business Tax. The new tax system also includes significant property tax reform, creating certain exemptions for industrial and commercial personal property.

**The Business Income Tax** will be assessed on business activity that takes place in Michigan. The base of the tax will start with Federal taxable income or a comparable measure of income for partnerships and S corporations. The tax rate would equal 4.95%.

**The Gross Receipts Tax** is based on a modified measure of a company's gross receipts. The base of the tax will be gross receipts less purchases from other firms. Purchases from other firms would include inventory purchased during the tax year and capital expenditures. The rate of this tax would be 0.8%. Special provisions would reduce the tax base for a variety of taxpayers including auto dealers, construction contractors, self-employed individuals, and members of partnerships and limited liability companies.

**Apportionment** Both the business income tax and modified gross receipt tax will be apportioned to Michigan based on sales. The sales apportionment factor would equal a business' sales in Michigan divided by its total sales everywhere.

**Insurance and Financial Institutions** Under the MBT, insurance firms pay a 1.25% tax on apportioned gross direct premiums (with adjustments) and financial institutions pay 0.235% on the 5-year average value of net capital.

## NEW TAX CREDITS

The MBT offers incentives for new and existing firms. Credits are allowed for Michigan-based compensation costs, capital purchases, R&D expenditures, and property taxes paid on industrial personal property. A new 'phase-in credit' will ease the tax impact for small businesses with gross receipts between \$350,001–\$700,000.

## EXISTING TAX CREDITS

Qualified tax credits will continue from the SBT, e.g. the Brownfield, Renaissance Zone<sup>®</sup>, MEGA, and NextEnergy<sup>SM</sup> credits, as well as credits for charitable giving. Also, the Small Business Credit continues with broader qualifying standards and includes an allowance for small businesses to pay an alternative 1.8% tax on business income.

## PERSONAL PROPERTY TAX RELIEF

As part of the overall tax reform package, firms will also receive an additional reduction on their property tax bill. Taxes will be automatically reduced by 24 mills for industrial personal property situated on industrial real property. Combined with the MBT credit, manufacturers will on average experience a 65% reduction in property taxes. Commercial personal property will receive an automatic reduction of 12 mills, or a 23% reduction on average.

MBT HIGHLIGHTS*	
Income Tax	4.95%
Gross Receipts Tax	0.8%
Apportionment Factor	100% Sales
Filing Threshold	\$350k
Investment Tax Credit	2.9%
Compensation Credit	0.37%
R&D Credit	1.9%
Industrial Personal Property Tax Credit	35%
* MBT Effective in 2008.	

**“THE NEW TAX STRUCTURE PROVIDES TAX CUTS FOR  
SEVEN OF 10 MICHIGAN BUSINESSES...”**

For more information, contact the Michigan Economic Development Corporation Customer Assistance at 517.373.9808 or visit our Web site at [michigan.org](http://michigan.org).